

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 /117 W
-----096773 241604Z /47/21

R 240800Z AUG 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6773
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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C O R R E C T E D C O P Y - P A R A 2. A) AND B)

USMTN ALSO FOR MISSION
USOECN ALSO FOR EMBASSY
PASS TREAS FRB
EO 11652: NA
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK AUG 14-18, 1978

1. SUMMARY: DOLLAR FELL TO RECORD LOW SF 1.5460 BUT
RECOVERED AND CLOSED ALMOST UNCHANGED AT SF 1.63;
GOLD REACHED NEW HIGH BUT FELL BACK TO \$210.50 AT
WEEK'S END. FED COUNCIL EXPRESSED INTENTION TO COMBAT
ANY LARGE INCREASE IN DOMESTIC UNEMPLOYMENT THAT
RESULTS FROM MOST RECENT APPRECIATION SF. ACCORDING
TO COMMUNIQUE FOLLOWING FED COUNCIL MEETING, SNB TO
STUDY ADDITIONAL MEASURES TO IMPROVE FUNCTIONING IN
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FOREX MARKET AS WELL AS POSSIBLE FURTHER RESTRICTIONS
ON INFLOW OF FOREIGN CAPITAL. BIG BANKS CUT TIME
DEPOSIT RATES AGAIN. SMALL TRADE SURPLUS IN JULY.
FLAT ECONOMIC ACTIVITY. END SUMMARY.
2. FOREX GOLD:
A) DOLLAR OPENED MON 80 POINTS WEAKER THAN FRI'S
CLOSE IN NERVOUS TRADING; BEFORE DAY'S END A SELLING

PANIC ERUPTED WHICH CONTINUED THROUGH WED SENDING DOLLAR AS LOW AS SF 1.5460 DESPITE INTERVENTION BY SNB. TUES AFTERNOON SNB GEN DIR PIERRE LANGUETIN MET WITH CHIEF FOREX DEALERS OF 3 BIG BANKS TO DISCUSS TECHNICAL ASPECTS OF SITUATION PRIOR TO WED MEETING OF FED COUNCIL AND SNB. COMMUNIQUE ISSUED BY FED COUNCIL THURS MORNING (BERN 4022 NOTAL) INSTRUCTED SNB TO LOOK INTO POSSIBILITIES OF IMPROVING FUNCTIONING OF FOREX MARKET AND SAID A FURTHER ADAPTION OF MEASURES AIMED AT WARDING OFF INFLOW OF FOREIGN MONEY HAS TO BE CONSIDERED; NOTED 15.5 PCT APPRECIATION OF SF AGAINST DOLLAR IN ONE MONTH. AT WEEK'S END DOLLAR STRENGTHENED IN THIN TRADING. B) GOLD TRADING WAS HECTIC DURING THE WEEK. HIGH \$215.75 ON WED, LOW THURS \$208.75. RATES FOLLOW:

OPEN 8/14(OPEN) 8/18 (CLOSE)

SPOT DOLLAR 1.6380 1.6300

FORWARD DISCOUNTS

(PCT PER ANNUM)

1 MONTH 8.89 8.69

2 MONTHS 8.20 8.28

3 MONTHS 8.10 8.07

6 MONTHS 7.85 7.91

12 MONTHS 7.53 7.61

SF/DM 83.63 81.99

GOLD 211.50 210.50

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3. CAPITAL MONEY MARKETS:

A) SHARES OF LARGER SWISS FIRMS DEPENDENT ON EXPORTS UNDER PRESSURE FOR MOST OF WEEK ON ZURICH STOCK MARKET. PRICES SLIGHTLY HIGHER AT MID-WEEK ON HOPES FED COUNCIL/SNB WOULD TAKE CONCRETE MEASURES TO HOLD DOWN FRANC. NERVOUS AND HECTIC TRADING FRI IN VIEW OF CONTINUED UNCERTAINTY ASSOCIATED WITH NEW ECONOMIC POLICIES UNDER CONSIDERATION. SKA INDEX DOWN 0.5 PCT AT 256.5; AVERAGE YIELD INDEX STOCKS 3.1 PCT.

B) SWISS BANK CORP AUG L5 REPORT ON BOND MARKET SAYS ALL UNCERTAINTIES AND SECOND THOUGHTS HAVE DISAPPEARED FROM MARKET; SNB HAS SUCCESSFULLY BROUGHT DOWN SHORT-TERM INTEREST RATES; FOR LACK OF ALTERNATIVES, INSTITUTIONS ARE BACK IN THE MARKET, AND TURNOVER IN SECONDARY MARKET HAS PICKED UP CONSIDERABLY. CONTINUING RUMORS OF MODIFICATION OR COMPLETE REPEAL OF SNB REGULATIONS REGARDING PURCHASES OF SWISS SECURITIES BY NON-RESIDENT FOREIGNERS CONTRIBUTING TO GENERAL OPTIMISM. RECENT ISSUES

SWISS FRANC MARKET:

AVERAGE YIELD DOMESTIC BONDS: 3.95 PCT AUG L4 (3.96 PCT PREVIOUS

WEEK.

ISSUE PRICE PRICE AUG L4 YIELD TO

PCT MATURITY

3.25 PCT BASEL

CANTON 78-87 99.50 101.50 3.06

4.00 PCT LEIBSTADT

78-88 101. 101.25 3.85

4.25 PCT STE INT

PIRELLI 78-90 100. 102.50 3.99

3.50 PCT SWISS BANK

CORP 78-88 101. 102.25 3.23

AVERAGE YIELD CONFEDERATION BONDS DECLINED TO 3.33 PCT. THREE
MONTH EUROFRANC RATE DECLINED TO 1/2 PCT, 12-MONTH RATE TO 7/8
PCT.

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C) FOUR BIGGEST BANKS ANNOUNCED FRI THEY HAVE CUT THEIR
TIME DEPOSIT RATES BY 0.25 PCT. NEW RATES ARE 0.50 PCT FOR
3-5 MONTH DEPOSITS, 0.75 PCT FOR 6-11 MONTHS, AND 1.00 PCT

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USMTN ALSO FOR MISSION
USOECN ALSO FOR EMBASSY
PASS TREAS FRB
FOR 12 MONTHS. CUT FOLLOWS LOWER EUROFRANC RATES AND ALSO
HIGH MARKET LIQUIDITY; RATES LAST CUT AUG 4.

4. SNB STATEMENT AS OF AUG 15 SHOWS BALANCE SHEET TOTAL
SF 35.833 BILLION. FOREX TOTALLED SF 20.303 BILLION, DOWN
SF 289 MILLION FROM AUG 7. GIRO ACCOUNTS TOTALLED SF 7.898
BILLION, DOWN SF 98 MILLION FROM PREVIOUS WEEK.

5. ECONOMY:

A) TRADE BALANCE SHOWED SURPLUS OF SF 38.1 MILLION IN
JULY COMPARED WITH SURPLUS OF SF 5.4 MILLION IN JULY
1977. FROM JUNE TO JULY IMPORTS DROPPED FROM SF 3.98
BILLION TO SF 3.30 BILLION; EXPORTS DROPPED FROM SF 3.87
BILLION TO SF 3.34 BILLION. TRADE DEFICIT FIRST 7 MONTHS
1978 TOTAL S SF 788 MILLION COMPARED TO SF 849 MILLION IN
SAME PERIOD 1977.

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B) SWISS WATCH CHAMBER 1977 ANNUAL REPORT SAYS PRODUCTION
OF WATCHES AND MOVEMENTS INCREASED FROM 64 MILLION
IN 1976 TO 68 MILLION IN 1977, REPRESENTING MORE
THAN 30 PCT OF WORLD PRODUCTION. EXPORTS INCREASED
19 PCT IN VALUE TO \$1.21 BILLION AND 6.2 PCT IN
UNITS. BUT IN SECOND HALF 1977 EXPORTS MARKEDLY
DECREASED.

C) EBAUCHES ELECTRONIQUES, SWITZERLAND'S LARGEST
PRODUCER OF ELECTRONIC WATCHES AND MODULES ANNOUNCED
SHORTER WORKING HOURS IN VIEW OF DIMINISHING BACKLOG
OF ORDERS CAUSED BY HIGHER SF. PRODUCTION WILL BE
SUSPENDED ONE WEEK IN AUG AND ONE DAY PER WEEK IN
SEPT.

D) SWISSAIR ANNOUNCED PROFITS FOR FIRST HALF 1978
DECREASED 13.6 PCT AS RESULT OF EXCHANGE RATE MOVE-
MENTS. PASSENGER-MILES INCREASED 12 PCT, BUT WOULD
HAVE HAD TO INCREASE 16 PCT TO COMPENSATE FOR EXCHANGE
RATE MOVEMENTS. OUTLOOK FOR FULL YEAR FAVORABLE
BECAUSE OF CONTINUING INCREASE IN BUSINESS.

E) NEUE ZUERCHER ZEITUNG REPORTS A GENERAL LEVELLING
OFF OF SWISS ECONOMIC ACTIVITY IN RECENT MONTHS
ATTRIBUTABLE IN LARGE PART TO RISE OF SF. INCREASED
COMPETITIVENESS OF IMPORTED GOODS, SLUGGISH INCREASE
IN CONSUMPTION AND CONTINUING INVESTMENT STAGNATION
HAS BROUGHT GROWTH OF NET DOMESTIC PRODUCT TO A HALT.
ACCELERATED RATE OF INVESTMENT ACTIVITY FORECAST IN
SPRING BY INSTITUTE OF ECONOMIC RESEARCH OF FED
TECHNICAL UNIV (ETH) HAS NOT OCCURRED. INDUSTRIAL
PRODUCTION AS A WHOLE HAS JUST MANAGED TO MAINTAIN
1977 LEVEL. IN IMPORTANT ENGINEERING SECTOR, FIRST

QUARTER 1978 ORDERS WERE DOWN 12 PCT FROM LAST
QUARTER 1977 AND SLIGHTLY BELOW FIRST QUARTER 1977
LEVEL.
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6. OPINION:

A) UNION BANK OF SWITZ REPORT NOTES THAT ALTHOUGH
EXCHANGE RATES AT PRESENT DO NOT REFLECT A TRUE
PICTURE OF ECONOMIC CONDITIONS, DEVELOPMENTS HAVE
TO BE ATTRIBUTED TO MARKET'S VIEW OF THE FUNDAMENTALS -
HUGE US TRADE GAP, INCREASING FEARS OF INFLATION, AS
WELL AS "SHACKLED" US ADMINISTRATION UNABLE TO FORCE
THROUGH ENERGY LEGISLATION.

B) REACTION TO FED COUNCIL AUG 17 COMMUNIQUE GENERALLY
BUT NOT UNIVERSALLY FAVORABLE. AGEFI (FRENCH LANGUAGE
ECONOMIC DAILY) SAYS IT WAS WELL-PRESENTED AND MODERATE
AND RECOGNIZED THAT MARGIN FOR MANEUVER BY SWISS GOVT
IS THIN; IT MUST BE HOPED THE SITUATION IMPROVES AND
THAT THE US WILL ASSUME THE DEFENSE OF THE DOLLAR.
BASLER ZEITUNG COMPLAINED THAT THE GOVT'S INTENTIONS ARE
STILL VAGUE AND THAT IT APPEARED THE SWISS WERE "FIGHTING
THE DOLLAR DISEASE WITH TEA". TAGES ANZEIGER EXPRESSED
SATISFACTION THAT A TWO-TIER SF STILL APPEARS TO BE OUT
OF THE QUESTION. CROWLEY

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